

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1149-06
Bill No.: Truly Agreed and Finally Passed SCS for HCS for HB 660
Subject: Retirement
Type: Original
Date: May 23, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government*	\$0	\$0	\$0

***Does not include elimination of surplus of \$331 million and creation of the UAAL of \$264 million, a total cost of \$595 million for the PSRS. Does not include the \$110 million reduction in the surplus for the NTRS. Does not include the \$13.9 million reduction in the surplus for the KC-PSRS. These funds are not considered local funds for fiscal note purposes.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 12 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Joint Committee on Public Employee Retirement** have reviewed this proposal and have determined that certain provisions represent “substantial proposed changes” to some plan benefits as defined in section 105.660(5), RSMo. Therefore, actuarial cost statements were required of these systems and were furnished and properly filed pursuant to 105.670, RSMo.

Officials of the **Office of Administration** indicates that any impact should be determined by the retirement systems.

Officials with the **Public School & Non-Teacher School Employee Retirement Systems** assume the proposal will:

Public School Retirement System (PSRS)

1. Change the COLA effective date to the second January 1st following retirement for members retiring on or after July 1, 2001.
2. Increase the formula factor by 0.05% for all years for those retirees with 31.0 years of credit or more who retire between July 1, 2001 and June 30, 2008. [Formula increases to 2.55%.]
3. Provide an increase for current retirees and beneficiaries of deceased retirees of \$3 per month per year of service.
4. Allows surviving spouses to apply for benefits to which they were not previously eligible because of remarriage.
5. Allows PSRS to continue to pay benefits & collect contributions as currently established in state law as set forth under Section 415 of Title 26 of the federal tax code. [There is no cost attached to this change.]
6. Allows for the promulgation of rules to recognize service credit in the four school retirement systems to establish eligibility for retirement benefits. No credit or assets will be transferred to or from any of the systems.

Officials with the PSRS obtained an actuarial cost report for the proposed changes. Officials note that the PSRS is overfunded by \$331 million as of June 30, 2000. The effect of the proposal will be to create an unfunded actuarial accrued liability (UAAL), which PSRS states will be \$264 million. This is based on an estimated cost of the provisions of \$595 million. The actuarially required contribution (ARC) following the proposal is calculated at 20.93% of pay. This is less than the current contribution rate of 21.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes.

ASSUMPTION (continued)

There will be a long-term fiscal impact as a result of this legislation, since the elimination of the system's surplus, and the creation of the UAAL will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of \$331 million is significantly less than the \$1.16 billion reported in October, 2000 for the period ended June 30, 2000. The PSRS is calculating the surplus based on actuarial assumptions adopted January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

Non-Teacher School Employee Retirement System (NTRS)

1. Increase the benefit formula factor from 1.51% to 1.61%.
2. Increase the formula under the 25-and-out provisions [by .1%].
3. Increase the COLA cap from 75% to 80%.
4. Across-the-board increase of 7.1% for retirees and beneficiaries of deceased retirees.
5. Increase from the current .4% to .8% the additional payment made for those retiring with either 30 years of credit or under the "rule of 80" who retire on or after July 1, 2001. This additional payment ends when the retiree reaches the minimum age for social security retirement eligibility.

Officials note that the NTRS is overfunded by \$166 million as of June 30, 2000. NTRS officials state that the effect of the proposal will be to reduce the surplus to \$56 million. This is based on the cost of the provisions estimated at \$110 million. The actuarially required contribution (ARC) following the proposal is calculated at 9.96% of pay. This is less than the current contribution rate of 10.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be a long-term fiscal impact as a result of this legislation, since the reduction of the plan's surplus will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of \$161 million is significantly more than the \$127 million reported in October, 2000 for the period ended June 30, 2000. The NTRS is calculating the surplus based on actuarial assumptions adopted January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

Officials with the **Kansas City Public School Retirement System (KC-PSRS)** indicated the provisions regarding the Kansas City School District and Kansas City charter school employees would have no fiscal impact to their system.

ASSUMPTION (continued)

Oversight noted that an actuarial study filed with the Joint Committee on Public Employee Retirement by the Board of Trustees of the KC–PSRS stated that the revision of eligibility for cost-of-living increases would reduce the plan’s actuarial surplus from \$20,216,000 to \$6,344,000, a total cost to the system's funds of \$13.9 million. **While there is significant fiscal impact to the retirement system, there is no immediate cost to the local school district, since their required contribution rate would not increase.** There is a long-term fiscal impact as a result of the proposal, because a reduction in the system’s surplus will contribute to any need for increased contributions in the future.

Officials from the **Saint Louis Public School Retirement System (PSRS–STL)** assume that the proposal would have no fiscal impact on the system. The changes being made to the system in statute by this act have already been made by rule by the system’s Board of Trustees. The actuarially required contribution (ARC) and the plan’s funding status already reflect the benefits proposed. An actuarial cost statement provided to the JCPER in July, 1998, noted that the changes being made at that time by the system’s Board of Trustees would require an employer actuarially required contribution of 8.03%. The system’s actuarial valuation as of January 1, 2000 (most recent available) indicated that the employer ARC, including the benefits in this proposal, is now calculated at 7.17%. The school district is currently making contributions at 8.03% of payroll.

Officials with the **Department of Elementary & Secondary Education** indicate the proposal would have no impact to the Department, but expect that two school districts (Columbia & Lee's Summit) could incur insignificant costs as a result of bearing a portion of the general municipal election costs every other year. In response to previous similar legislation, officials with the **Office of the Secretary of State–Elections Division** assumed the provision regarding the terms of school board members in districts designated as urban districts as a result of the 2000 census would have no impact to the office.

FISCAL IMPACT - State Government

FY 2002
(10 Mo.)

FY 2003

FY 2004

\$0

\$0

\$0

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	<u>\$0*</u>	<u>\$0*</u>	<u>\$0*</u>

***Does not include elimination of surplus of \$331 million and creation of the UAAL of \$264 million, a total cost of \$595 million for the PSRS. Does not include the \$110 million reduction in the surplus for the NTRS. Does not include the \$13.9 million reduction in the surplus for the KC-PSRS. These funds are not considered local funds for fiscal note purposes.**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This act modifies the Public School Retirement System pertaining to teachers and non-teachers.

TEACHER MEMBER MODIFICATIONS - An additional option is provided for teacher members who have thirty-one years or more of creditable service, regardless of age. Such persons may elect a retirement allowance of two and fifty-five hundredths percent of the members' final average salary for each year of membership service. Members retiring between July 1, 2001, and June 1, 2008, may elect this option.

The cost of living (COLA) increase for members retiring on or after July 1, 2001 will become effective the second January 1st following the member's retirement.

Members who retire prior to July 1, 2001, receive an additional amount equal to three dollars times the member's number of years of creditable service.

This act authorizes the Public School Retirement System Board of Trustees to establish a benefit plan with benefits in excess of the federal maximum benefit amount established in 26 U.S.C. 415. The "secondary" plans may only be used to provide benefits in excess of the federal maximum benefit amounts. (Section 169.070) This portion of the act has an emergency clause.

SURVIVING SPOUSE BENEFITS - This act extends to surviving spouses of members of the Public School Retirement System who remarried before August 28, 1995 any remaining benefits. The act prohibits retroactive benefits. (Section 169.075)

MF:LR:OD (12/00)

DESCRIPTION (continued)

PUBLIC SCHOOL RETIREMENT SYSTEMS RULES - This act requires all school retirement systems created under Chapter 169, RSMo, to promulgate joint rules providing for reciprocity and recognition of credit under any of those systems. The rules shall not permit transfer of creditable service or system assets. (Section 169.569)

NON-TEACHER MEMBER MODIFICATIONS - The benefit factor for members is increased from 1.51% to 1.61%.

Members retiring after July 1, 2001, who participate in the Twenty-five and Out retirement option and retire between July 1, 2001 and July 1, 2003, receive a Benefit Factor Increase of 0.10%.

Members whose creditable service is thirty years or whose sum of age and years of service is eighty years or more and who retire on or after July 1, 2001, receive an increase in the temporary allowance. Qualifying members receive a temporary retirement allowance of eight-tenths of one percent of the member's final average salary multiplied by the member's year of service until the member reaches the minimum age for social security benefits. This is an increase to eight-tenths (.8%) from four-tenths (.4%), which was authorized in HB 1808 (2000).

The cost of living increase (COLA) cap is increased from 75% to 80%.

Members retiring prior to July 1, 2001, receive an increase of seven and one-tenth percent of the previous month's benefit. This portion of the act has an emergency clause. (Section 169.670)

Regarding the Kansas City Public School Retirement System (KC-PSRS), the law is expanded to include charter schools in KC-PSRS and makes provisions for KC-PSRS to continue if the district lapses. This portion of the act is similar to SB 975 (2000).

CHARTER SCHOOLS - Charter schools are considered public schools and charter school employees are public school employees. Independent contractors are not considered employees. Charter school employees shall continue to be public school employees and participate in a public school retirement system if the district lapses due to unaccreditation.

Purchase of credit for prior service is allowed for charter school employees.

Retired employees may not work for either a charter school or the district, except for part-time work provided in this section.

PROVISIONS FOR LAPSE OF DISTRICT - KC-PSRS shall continue to be subject to existing KC-PSRS law, even if the district lapses.

DESCRIPTION (continued)

KC-PSRS shall continue to be governed by a Board of Trustees established under this section, even if the district lapses. If the district lapses, a majority of trustees then in office shall constitute a quorum, and any action of the Board shall require the vote of a majority of trustees then in office. If the district lapses, KC-PSRS shall not be transferred to or merged with another system without prior approval of such action by the KC-PSRS Board of Trustees.

INACTIVE EMPLOYEES - The act provides that an inactive employee who returns to work shall receive a separate retirement allowance based upon each period of service ending in a break in service, unless the employee work at least four years after returning, in which case retirement allowance shall be based upon all creditable service and the final salary and benefit formula in effect at the end of the re-employment.

This legislation provides that cost-of-living increases will commence in the second January following retirement, rather than the current fourth January. Raises the current limit of 530 hours on re-employment after retirement without loss of benefits to 600 hours.

This act revises laws pertaining to the St. Louis Public School Retirement System (PSRS-STL).

The terms "creditable service", "retirant" and "retirement allowance" are replaced by new terms. The term "member" is defined to include three member categories: Active Members, Inactive Members and Retired Members. The definition of "school district" is revised to continue to refer uniquely to St. Louis Public School District.

Charter schools are defined and relevant definitions have been amended to include the participation of charter school employees under the Retirement System.

The act consolidates provisions for the purchase of credit for service.

The act gives the Board of Trustees authority to continue to function in the event of a lapse of the Board of Education for St. Louis Public Schools.

The Board's actuary shall be qualified by membership as a fellow in the Society of Actuaries or by objective standards no less stringent than those established by the Society of Actuaries.

The period during which a member can apply for pension is increased from 90 to 180 days. The period during which a member can apply for disability pension is increased

from 90 to 180 days and a Social Security Disability Award shall be accepted as an alternative standard for disability pension approval.

DESCRIPTION (continued)

The pension benefit formula is increased from one and 1.25% to 2%.

Involuntary distribution shall be provided to a member who has less than five years service who ceases to be employed, except by death, of the amount of accumulated contributions. The payment shall be made in accordance with Internal Revenue Code.

The act adds a payment option that permits members to receive an actuarially equivalent benefit that is higher prior to age 62 and lower after age 62 to adjust for becoming eligible for Social Security benefits and provide leveled, total pension payments.

The act deletes a provision that a member's account would not be credited with annual interest after the date benefits were first due and payable.

Compensation to retired members, as allowed under section 105.269, RSMo, shall not preclude continued receipt of a pension benefit.

The act provides that various supplements which authorized benefit increases for retirees from 1975 through 1993 will be treated as cost of living adjustments.

The member contribution rate is raised to five percent.

The act eliminates language requiring that the annual valuation be based on the unfunded liability that existed in 1980, changes the amortization schedule for the unfunded liability from 50 years to a period not to exceed 30 years, and allows the Board of Trustees to adopt an actuarial method that is appropriate for the retirement system's funded status.

The retirement system will recognize child support orders from the Division of Child Support Enforcement involving retired members.

The act provides that metropolitan school districts may employ retired teachers for up to four years (instead of the current two years) without a loss of retirement benefits. The district need not apply to the Department of Elementary & Secondary Education for a waiver. Retirees may also work as charter school administrators.

The act stipulates that the elections for a school district designated as urban as a result of the 2000 census will continue to hold annual school board elections, rather than biennial elections as do existing urban districts.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Office of Administration
Public School & Non Teacher School Employee Retirement System
Saint Louis Public School Retirement System
Kansas City Public School Retirement System
Department of Elementary and Secondary Education
Office of the Secretary of State

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director

May 23, 2001